

## SUBCOMMITTEE NO. 4

## Agenda

Joseph Dunn, Chair  
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### Agenda – Part B

Thursday, May 5, 2005  
Upon adjournment  
Room 112

(Consultant: Brian Annis)

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## Issues Proposed for Consent / Vote Only

### 1110 Board of Registered Nursing

The Board of Registered Nursing ensures that registered nurses are competent and safe to practice through: (1) sound licensing standards; (2) an effective enforcement program to prosecute violations of the Nursing Practice Act; (3) a diversion program to intervene with chemically dependent or mentally ill nurses; (4) oversight of nursing school programs; and (5) public education efforts.

**Issue: Augmentation for the Diversion Program (Finance Letter (FL) #1).** The Administration proposes a permanent augmentation of \$168,000 (special fund) to support the increased participation in the Diversion Program. The Diversion Program is a voluntary confidential monitoring program for Registered Nurses (RNs) whose competency may be impaired as a result of chemical dependency and/or mental illness. The Diversion Program services are performed by a contractor with staff having expertise and knowledge in chemical dependency and mental illness. The base program funding anticipates contract costs of \$1.106 million and 408 participants. Recent actual participation suggests 2005-06 costs of \$1.274 million and 470 participants.

### 1111 Bureau of Automotive Repair

The Bureau of Automotive Repair administers the Automotive Repair Program and the Smog Check Program. Both Programs are designed to protect consumers and discipline unethical service dealers and technicians. The Bureau also administers the Consumer Assistance Program, which provides financial assistance to eligible consumers whose vehicles fail a biennial Smog Check inspection.

**Issue: Staff Realignment (FL #2):** The Administration requests a budget adjustment to rescind a January Governor's Budget Proposal to shift 3.8 positions and \$269,000 (special fund) from the Department of Consumer Affairs Communications and Education Division to the Bureau of Automotive Repair. The Administration is now requesting to maintain the status quo and keep consumer education and outreach functions centralized, rather than decentralize these functions by transferring them to the Bureau of Automotive Repair. Implementation of this proposal would result in no net increase in expenditures.

**1700 Department of Fair Employment and Housing**

The mission of the Department of Fair Employment and Housing is to protect people from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

**Issue: Technical Corrections related to Workers' Compensation (April FL).** The Administration requests the following technical corrections related to adjustments made in the January Governor's Budget for Control Section 6.60 of the 2004 Budget Act. Control Section 6.60 provided a mechanism for budget adjustments due to workers' compensation savings.

- Move the savings from operating expenses and equipment to staff benefits.
- Augment funding by \$390,000 (General Fund) to correct for overstated savings due to incorrect base-year costs.

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**Staff Comment:** No issues have been raised with the consent / vote-only items listed above.

**Staff Recommendation:** Approve the budgets of the entities listed above.

**Vote:**

**1110 / 1111      Department of Consumer Affairs**

The Department of Consumer Affairs (DCA) provides exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns. The issue listed below is a cross-cutting issue that involves multiple Boards or Bureaus. Issues that relate to a single Board or Bureau are discussed under the headings of the individual Board or Bureau.

**Issue for Discussion:****1. Workers' Compensation Augmentation and Conversion to a "Self-Insured" Program (Budget Change Proposal (BCP) #1 and FL #1).**

**BCP #1:** The Administration requests a permanent augmentation of \$3.1 million (no General Fund, various special funds) to provide Boards and Bureaus with sufficient resources to fund significant increases in State Compensation Insurance Fund (SCIF) premiums. The base budget for these costs is currently \$3.4 million and SCIF premiums are anticipated at \$6.5 million for 2005-06.

**FL #1:** The Administration requests conversion of DCA from a premium-based insurance policy with SCIF to a self-insured program. According to information provided by the Department of Finance, most State departments pay workers' compensation costs directly out of their budgets instead of purchasing insurance through SCIF. The Finance Letter indicates that DCA's actual workers' compensation costs have averaged between \$1.3 million to \$2.0 million, while their SCIF premiums have increased to \$6.5 million. The Administration proposes to retain the augmentation in BCP #1 and additionally add 1.5 positions (no additional funding) to DCA, but anticipates overall savings from the conversion to a self-insured program. The Administration proposes to separately schedule the workers' compensation appropriation, so that Control Section 26.00 restrictions would apply and DCA would have limited ability to redirect this funding for other expenditures.

**April 6, 2005 Hearing:** BCP #1 was on a past hearing agenda, but the issue was held open without discussion to be considered in concert with FL #1.

**Staff Comment:** The Administration indicates the conversion to a self-funded program should reduce DCA costs; however, this may increase the frequency of deficiency requests if small boards are unable to absorb unanticipated workers' compensation costs. If approved, committee staff should be directed to look at this again next year to see if savings were achieved and if the appropriation should be reduced.

**Staff Recommendation:** Approve both BCP #1 and FL #1.

**Vote:**

## **1110 Athletic Commission**

The State Athletic Commission approves, manages, and directs all professional and amateur boxing and martial arts events. The Commission is charged with ensuring bouts are fair and competitive while protecting the health and safety of participants. The Commission is supported by industry fees.

### **Issue for Discussion**

- 1. Augmentation to Implement Senate Bill 1549 (FL #1).** The Administration requests a permanent augmentation of \$46,000 (special fund) for temporary help to implement the requirement of SB 1549 (Statutes of 2004, Figueroa), which expanded the jurisdiction of the Commission to include all forms of martial arts contests, including mixed martial arts. The Senate Floor Analysis for SB 1549 estimated annual costs of about \$300,000, for additional licensing and for regulation of martial arts events, offset by about \$550,000 in revenue from license fees and gate taxes.

**Staff Comment:** The Commission should explain the difference in fiscal estimates between the SB 1549 analysis and those in the Finance Letter, and whether the requested amount will be sufficient to implement SB 1549.

**Staff Recommendation:** Approve the request.

**Vote:**

## 1920 State Teachers' Retirement System

The State Teachers' Retirement System (CalSTRS) administers retirement and health benefits for more than 735,000 active and retired educators in the public schools from kindergarten through the community college system.

### Issue for Discussion

- 1. State Contribution to the Defined Benefit Program.** The Governor proposes to shift State responsibility for making contributions to CalSTRS basic retirement program to local employers. Specifically, the Governor's proposal eliminates the State's 2.017 percent contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of \$469 million in 2005-06. The proposal increases contributions for CalSTRS employers – school districts, county offices of education and community colleges – but does not provide additional funding to cover higher local contributions to the DB program. The Governor's proposal allows local employers to share costs with CalSTRS employees through collective bargaining. The state also contributes 2.5 percent of payroll for purchasing power benefits – estimated to total \$581 million General Fund (non-98) in 2005-06. This purchasing power protection program is not affected by the Governor's proposal.

**Detail:** Under the DB program, benefits are funded from three sources. Contributions, as a percent of payroll, for each of these sources are fixed in statute as follows:

- Employee Contributions: 8.0 %
- Employer Contributions: 8.25 %
- State Contributions: 2.017 %

Under the Governor's proposal, the state's DB program contribution of 2.017 percent would be eliminated and the funding obligation would shift to either the Employer Contribution or the Employee Contribution (depending on collective bargaining). As noted in the LAO analysis, the State's contribution of 2.017 percent is pegged to payroll two years ago. If the 2.0-percent calculation were applied to current payroll, the costs would be approximately \$500 million.

In addition, the Governor proposes to give teachers the option of eliminating their 2 percent contribution currently credited to a Defined Benefit Supplement (DBS) program. This option would allow employees to increase their take home pay by reducing contributions from 8 to 6 percent, but also reduce DBS benefits. Under current law, the DBS program ends in 2010.

The Administration also proposes to eliminate a statutory surcharge that is activated when there is unfunded liability to cover 1990-level benefits. This surcharge was triggered for three-quarters of the year in 2004-05 at a rate of 0.524 percent and resulted in a General Fund (Non-98) cost of \$92 million. The LAO estimates that the full-year costs of funding the surcharge is between \$120 and \$170 million in

General Funds. The CalSTRS estimate of the 2005-06 cost of this surcharge is \$122 million.

**CalSTRS Comments:** The CalSTRS Board is opposed to the Governor's DB contribution shift proposal because it: (1) potentially worsens the funding condition of the DB program; (2) potentially impairs contractual rights of existing members; and (3) poses a severe administrative burden on local employers and CalSTRS to administer the benefit program.

**Proposition 98 Rebenching:** The Governor's proposal would not result in any savings to the State if the cost shift would result in a rebenching of Proposition 98. In the *Analysis of the 2005-06 Budget Bill*, the LAO indicated that because the proposal shifts costs to locals it would likely require rebenching of Proposition 98. If this were the case, the state would have to appropriate \$469 million to locals. The Administration has argued that no rebenching would be necessary with the proposal.

**Legislative Counsel Opinion:** The Legislative Counsel provided an opinion on the Governor's proposal and Proposition 98 rebenching in a letter dated April 11, 2005, and titled, *State Teachers' Retirement: Proposition 98 - #9293*. The opinion concludes as follows:

*Thus, it is our opinion that the proposal to eliminate the state's annual contribution to the California State Teachers' Retirement System Defined Benefit Program contained in the Governor's Budget for the 2005-06 fiscal year would require a recalculation of the minimum educational funding obligation imposed by Section 8 of Article XVI of the California Constitution if that proposal is enacted by the Legislature and signed by the Governor.*

**Staff Comment:** Rebenching of Proposition 98, as the Legislative Counsel indicates would be required, means that the Governor's proposal would not save the State any money, as the State would be required to backfill the cost to locals of this retirement cost.

**Staff Recommendation:** Reject the Governor's proposal, because it will not generate any savings for the State.

**Vote:**

**Note on CalSTRS budget:** Pursuant to the direction of the Chair at the April 27 hearing, the remainder of CalSTRS budget (other than issue #1 above as applicable) is kept open while an issue of concern to another Senator is being addressed.

## 2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The Governor' Budget proposes total expenditures of \$31.1 million (State Corporations Fund), an increase of \$1.8 million.

### Issues:

#### 1. Continuation of Seniors Against Investment Fraud (SAIF) Program (BCP #4):

The Department requests \$400,000 (special fund) and 1 position to continue this three-year-old program that previously has been funded by a grant from the Criminal Justice Programs Division of the Governor's Office of Emergency Services. With help from volunteers from organizations such as the Association of Retired Persons and the Retired Senior Volunteers Program, the program conducts outreach training and distributes information packets to seniors. The program aims to reduce investment fraud in areas such as insurance, annuities, and ponzi schemes.

**Legislative Analyst Recommendation:** In the *Analysis of the 2005-06 Budget Bill*, the Analyst recommends that the Legislature deny this funding request. The Analyst indicates it is difficult to draw definitive conclusions about the program's direct benefits on reducing investment fraud. Additionally, the Department of Justice contains a Bureau of Medical Fraud and Elder Abuse that also works to reduce investment fraud on seniors.

**March 2, 2005 Hearing:** The Subcommittee left this issue open and requested that the Administration provide additional information concerning any overlap between the functions of this program and the Department of Justice Program.

**Administration Response:** Both the department and the Attorney General's Office provided information about their respective programs. The Attorney General's program has a broader scope and does not provide the detail and depth of help provided by the Department of Corporations with SAIF.

	<b>Dept. of Corporations</b>	<b>Attorney General's Office</b>
<b>Scope of Program</b>	Investment fraud against seniors.	Elder abuse, including physical, neglect, and financial.
<b>Response to phone inquires on investments</b>	Receives calls and advises seniors.	Does not have staff to advise senior. Refers callers to SAIF.
<b>Public Outreach</b>	With volunteers, over 2,000 presentations.	Senior Crime Alert Forums, normally include a SAIF representative.

**Staff Comment.** Information provided by the Administration indicates that SAIF provides services and information that is not available from the Attorney General's program. The Subcommittee may want to adopt one of the following four options:

- 1) Reject SAIF funding. This is the LAO recommendation and would reduce costs, but decrease state services to seniors.
- 2) Reduce SAIF funding to \$225,000 (BCP minus \$175,000). This would provide for one staff person, but reduce funding available for media advertising, conference fees, and video production. The remaining funding would cover printing, travel costs, general expenses and service contracts.
- 3) Approve SAIF funding at \$400,000, but make it 2-year limited-term. This would address the concern about a fee increase – if in two years, fee revenue is insufficient to continue at this level, funding could be eliminated or reduced.
- 4) Approve permanent SAIF funding of \$400,000, as requested by the Administration.

**Staff Recommendation:** Adopt option #2: Reduce SAIF Funding to \$225,000 (BCP minus \$175,000). This maintains the core program but eliminates or reduces costly conference attendance, media purchases, and video production.

**Vote:**

- 2. Additional Examiners – Abusive Lending Enforcement (BCP #5):** The Department requests three positions and \$287,000 (special fund) for the additional workload associated with AB 2693 (Chapter 940, Statutes of 2004, Wiggins). AB 2693 added a provision to the California Financial Code that prohibits finance lenders from failing to disburse funds in accordance with a commitment to make a loan, or intentionally delaying the closing of a loan for the purpose of increasing costs to the borrower. The Assembly analysis of the bill indicated that these practices were already illegal under Residential Mortgage Law, but not described as prohibited acts under the California Financial Code. The analysis indicated no fiscal cost to implement the bill.

**March 2, 2005 Hearing:** The Subcommittee left this issue open and requested that the Administration provide additional information concerning the need for this augmentation and why AB 2693 indicated no fiscal effect.

**Administration Response:** The Department indicates that it identified fiscal costs associated with AB 2693, but did not have time to submit their analysis after amendments were adopted and prior to the bill being passed out of committee. The Department notes the cost is due to adding this activity to their audit investigations, such that every lender is examined for compliance every four years.

**Staff Comment.** This issue is similar to last year's discussion of SB 1, the Financial Information Privacy Act. The Department wanted funding to audit all firms for compliance; however, the Legislature reduced the funding to cover complaint investigation and "red flag" audits. Report language was added to report the observed level of non-compliance with SB 1.

**Staff Recommendation:** Approve funding for only one of the requested three positions (BCP minus \$191,000 and 2 positions) to fund complaint investigation and "red flag" audits. This is analogous to last year's action on SB 1. Adopt the following language to require the Department to report on compliance:

*Provision 3: The Department of Corporations shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2007, on the level of non-compliance found with Chapter 940, Statutes of 2004 and any staffing changes requested based on the level of compliance.*

**Vote:**

**3. Troops Against Predatory Scams Investor Education Program (FL #1).** The Administration requests an augmentation in reimbursement authority of \$150,000, three-year limited-term, to receive grant funding to institute a Troops Against Predatory Scams (TAPS) Investor Education Program. The grant has been awarded to the department by the Investor Protection Trust, a nonprofit organization whose primary mission is to provide independent, objective, investor education. The TAPS program is designed to educate members of the Armed Forces and their families stationed within California about how to protect their finances against investment fraud and predatory financial schemes. The proposed TAPS expenditures are as follows:

- \$104,000 – General expenses and advertising.
- \$11,000 – Printing, postage, communications, and facilities.
- \$35,000 – Travel for the TAPS Program Director and an analyst.

**Staff Comment:** The Department indicates TAPS would be managed by existing Public Affairs Office staff, existing call center staff, and possibly student assistants.

**Staff Recommendation:** Approve this request. Funding is provided by a nonprofit organization.

**Vote:**

## 2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor's Budget proposes \$563.2 million (\$13.3 million General Fund) in total expenditures for the department – a decrease of \$34.9 million.

### Housing and Community Development Issues for Discussion / Vote

1. **Regional Housing Needs Assessment Mandate (Staff Issue).** Given a recent *Statement of Decision* by the Commission on State Mandates, the Legislature may want to consider deleting the "housing element" mandate item in the budget bill.

**Background:** Statute requires Councils of Governments (COGs) to assess a locality its share of the regional housing need. As part of its general plan, every city and county is required to prepare a "housing element" which assesses the conditions of its housing stock and outlines a five-year plan for housing development. In 1981, the Board of Control determined that the housing-element requirement imposes a reimbursable mandate. Last year, the LAO estimated the annual cost to the State at approximately \$4 million (General Fund). Last year, the Legislature approved a budget trailer bill (SB 1102), which asked the Commission on State Mandates to reconsider the 1981 finding based on federal and state statutes enacted and federal and state court decisions rendered since the 1981 finding. On March 30, 2005, the Commission on State Mandates adopted a Statement of Decision that the housing element mandate does not require state reimbursement under the provisions of Article XIII B, section 6, of the California Constitution.

**Staff Comment:** The Governor's Budget proposed a suspension of the housing element mandate in 2005-06. Last year, the Legislature approved the deferral of the mandate, which continued the requirement, but deferred the State reimbursement to locals. Given the recent decision by the Commission on State Mandates, the Legislature may want to delete the mandate item. This action would continue the current-law requirement for locals, but not result in any costs to the State (either current or deferred). Staff understands that the Department of Finance is supportive of this change.

**Staff Recommendation:** Delete the housing element mandate item (2240-295-0001) from the budget bill.

**Vote:**

- 2. Economic Development Areas – Administrative Funding (Staff Issue).** The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 39 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). Last year, a budget trailer bill (SB 1097) provided HCD authority until July 1, 2006, to impose a fee, not to exceed \$10, for each application for a Enterprise Zone hiring tax credit voucher. Businesses are only required to pay the fee if they choose to take advantage of the tax credit. This fee funds the State's cost of the Economic Development Areas Programs (\$668,000 and 6 positions), which would otherwise be a General Fund expense. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs.

Proposed statutory amendments would include LAMBRAs, MEAs, and TTAs in the fee structure; include a fee sunset date to 2009 (and move the EZ sunset date from 2006 to 2009); and delete the refund requirement for a rejected EZ application. Proposed amendments are on Attachment I (page 24) of this agenda.

**March 2, 2005 Hearing:** The Subcommittee kept this issue open to receive further input on the language from interested parties.

**Language Changes:** The language has been modified since the last hearing to add a 2009 sunset date. These changes were made to address industry concerns and staff understands industry does not oppose this language.

**Staff Comment:** There are approximately 55,000 businesses using the EZ tax credit and only about 2,300 businesses using tax credits in all the other economic development areas. According to HCD, there is not an administrative problem with also requiring the businesses that use the other tax-credit programs to help support the State's administrative cost of the programs. Moving the EZ sunset date would save the State approximately \$668,000 (General Fund) in 2006-07. Identical language is included in SB 254 (Torlakson).

**Staff Recommendation:** Approve this trailer bill language.

**Vote:**

- 3. Mobilehome Inspection Staffing (FL #2):** The Administration requests permanent funding \$1.9 million (special fund) and 14 positions to liquidate the backlog and cover the costs of inspections for the Mobilehome Parks, Special Occupancy Parks, Factory-Built Housing, and the Manufactured Housing Program. Half-year funding is requested for 2005-06 totaling \$1.0 million and 7 positions. The Administration proposes to fund these costs with fee increases that can be achieved without statutory change. The amounts of the fee increases vary by inspection type, but many of the fee increases are significant – exceeding 100 percent. Many of the fees have not changed since the 1980's.

**Staff Comment:** The Department indicates the major stakeholders are supportive of these fee increases, as indicated by the support of the following entities:

- California Manufactured Housing Institute (representing manufacturers, dealers, and installers)
- Western Manufactured Home Association (representing park owners and operators)
- Golden State Manufactured-Home Owners League (representing mobile home owners)

**Staff Recommendation:** Approve the request.

**Vote:**

## **2400 Department of Managed Health Care**

The mission of the Department of Managed Health Care (DMHC) is to regulate, and provide quality-of-care and fiscal oversight for Health Maintenance Organizations (HMOs). Within the Department, the Office of the Patient Advocate helps educate consumers about their HMO rights and responsibilities. Previously, DMHC was heard in Budget Subcommittee 3, with Health and Human Services departments. DMHC is now in Budget Subcommittee 4, to be heard with other departments in the Business, Transportation, and Housing Agency.

The Governor proposes \$35.9 million (no General Fund) in total expenditures for the department – a decrease of \$331,000.

### **Issue for Discussion**

- 1. Staffing Augmentation (BCP #1).** The Administration requests authority to add four permanent positions for the HMO Help Center to be funded within existing resources. This request would convert temporary-help positions to permanent positions, so the \$166,000 cost for these positions is not additive to the DMHC budget. In 2002-03, BCP #1, projected a need for additional permanent positions, but deferred the request to assess the impact of legislation, outreach efforts, and business-process re-engineering on workload.

**Staff Comment:** Since DMHC is new to Subcommittee #4 and has not previously been heard this year, the subcommittee may wish to ask DMHC to briefly describe their HMO Help Center. Additionally, the subcommittee may want DMHC to comment on the quality of customer service performed both by department staff and an external call center operated by a private vender.

**Staff Recommendation:** Approve the budget request.

**Vote:**

## 2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$762 million, an increase of \$7 million (1 percent) from the current-year budget.

### Budget Changes proposed for Discussion / Vote

- 1. Moving Costs (BCP).** The Administration requests 2005-06 funding of \$781,000, special funds, for moving costs related to three existing offices (in Rocklin, Poway, and Riverside East) where the lessors do not intend to renew the DMV lease. The table below, from DMV, outlines the one-time and ongoing costs by location.

Ongoing	2005-06	2006-07
Rocklin	\$333,095	\$361,740
Poway	na	\$415,000
Riverside East	na	\$427,000
Total On-going Funds	\$333,095	\$1,203,740
One-Time		
Rocklin	\$0	\$0
Poway	\$196,000	\$64,800
Riverside East	\$252,000	84,600
Total One-time Funds	\$448,600	\$149,400
<b>Total Request</b>	<b>\$781,695</b>	<b>\$1,353,140</b>

**March 16, 2005 Hearing:** The Subcommittee kept this issue open and asked DMV to provide further information to justify the cost of this request.

**DMV Response:** The DMV has provided additional detail on these costs.

**Staff Recommendation:** Approved the request.

**Vote:**

- 2. Evaluations of High-Risk Drivers (LAO issue).** The LAO recommends adoption of budget bill language directing the department to transfer the workload for evaluating certain high-risk drivers from driver safety offices to its field offices, and to report on the impact of the transfer. The LAO suggests the “negligent operator “ evaluations (concerning motorists that accrue an excessive number of moving violations or cause multiple traffic accidents) be moved to the field offices because these are the simpler type of evaluations that mid-level field office staff could perform with little training. This action would decrease the workload at the safety offices by about 10 percent and allow quicker evaluation of Driving-Under-the-Influence (DUI) cases and physical and mental ability cases. The LAO indicates that currently, DMV is not meeting statutory time frames for DUI cases.

**March 16, 2005 Hearing:** The Subcommittee kept this issue open at the request of the DMV. The DMV indicated it needed additional time to evaluate and research this recommendation.

**Compromise Language:** The DMV indicates that the LAO proposal merits study and the DMV plans to hire a consultant (within existing budgetary resources) to look at the feasibility of the change. The LAO revised its supplemental report language to incorporate the DMV proposal:

*On or before April 1, 2006, the Department of Motor Vehicles shall provide a report to the Chair of the Joint Legislative Budget Committee and the chairs of the budget committees of both houses of the Legislature on its short-, mid-, and long-term plans for addressing anticipated workload growth in the driver safety program. The report shall include the department's plans for meeting statutory requirements for administrative license suspension and negligent operator hearings, as well as scheduling timely evaluations of other high-risk drivers. The report shall also include an estimate of the department's additional resource requirements, if any, in carrying out these plans.*

**Staff Comment:** Staff understands the above supplemental report language is acceptable to both the LAO and the Administration.

**Staff Recommendation:** Adopt the LAO's compromise supplemental report language.

**Vote:**

- 3. Funding for Credit Card Fees (FL #2).** The Administration requests an augmentation of \$6.6 million (special funds) to fund credit card convenience fees charged by credit card companies. DMV requests an additional \$2.3 million augmentation in 2006-07, such that total funding that year will be \$8.9 million. This funding will cover the fees assessed by Visa, MasterCard, American Express, and Discover for the credit card transactions conducted by the DMV's customers such as registration renewal, personalized license plate reservation, and driver's license renewal.

**Background:** On July 1, 2004, the DMV began absorbing the \$4 credit card convenience fee previously charged to customers to encouraged growth in online transactions. The DMV anticipates an approximate doubling of online transactions from 2003-04 to 2004-05 with additional significant growth in 2005-06 and 2006-07. For example, the number of online registration renewals was 644,025 in 2001-02; grew to 1,190,519 in 2003-04; and is expected to be 3,000,000 in 2006-07. In 2004-05, the DMV added drivers license renewals to its online options. The DMV has absorbed these costs in the current year by lengthening the useful life of equipment, deferring routine maintenance, reducing both in-state and out-of-state travel, and reducing training costs; however, the department indicates this redirection cannot be carried out on an ongoing basis.

**Staff Comment:** While the Finance Letter indicates increased online credit card payment may reduce visits to DMV offices, the department has indicated in discussions that most of the growth in online transactions is coming from people who would otherwise mail their payment to the DMV. The Department indicates that credit card transactions do not result in cost savings relative to processing checks that arrive in the mail. Despite no current cost saving, the DMV wants to expand online offerings and feels future benefits will accrue from customers visiting the DMV website.

**Staff Recommendation:** Approve this request, but change funding to two-year limited-term. The DMV indicates convenience fees have been removed three times and later reinstated over an eleven year period as the budget and fund condition allowed. The current Motor Vehicle Account fund condition is sufficient to support this cost if the Subcommittee wishes to approve this request; however, this may change in the future.

**Vote:**

- 4. International Registration Plan – IT System Replacement (FL 4):** The Administration requests an augmentation of \$1.345 million (special funds) in 2005-06 to begin the replacement of DMV's existing computer system for processing International Registration Plan (IRP) registrations with a commercial-off-the-shelf software package widely utilized by other states and countries. The DMV indicates that the new system would provide the department better tools to detect firms that underreport California mileage and in doing so increase annual revenue by approximately \$7.2 million. The Feasibility Study Report (FSR) indicates the DMV intends to redirect funds to this project through 2008-09, such that the total project cost is identified at \$8.4 million. Approval of this request would authorize out-year funding as follows (\$ in millions):

	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>Ongoing</b>	<b>Total</b>
Requested Funding	\$1.345	\$1.325	\$1.123	\$1.036	\$4.829
Redirected Funding	\$1.267	\$1.308	\$0.708	\$0.269	\$3.553
<b>TOTAL</b>	<b>\$2.612</b>	<b>\$2.633</b>	<b>\$1.832</b>	<b>\$1.306</b>	<b>\$8.382</b>
Revenue Increase	\$0	\$0	\$3.700	\$7.400	\$11.100

**Detail:** California is a member of the federally-mandated IRP, which apportions registration fees for interstate carriers across IRP jurisdictions based on mileage. DMV indicates that the current IT system, implemented in 1985, doesn't have the capability to interface with the IRP Clearinghouse electronic exchange system used by 45 of 59 IRP jurisdictions. The requested IT system would enhance automated support for IRP program activities, resulting in more effective and efficient operations and enhanced customer service and convenience. Customer service improvements would include reduced turnaround time for processing IRP applications (from 30-35 days to 10 days) and alternative service delivery options via the Internet to conduct IRP transactions electronically instead of using the current hard copy submission method. This system would support the provisions of SB 1233 (Statutes of 2004), that authorizes the DMV to form a public-private partnership with a motor carrier association to provide electronic services capable of accepting, completing, and transmitting registration transaction data and fees to the department.

**Staff Comment:** The FSR associated with this project is still under review by the Department of Finance, Office of Technology Review, Oversight, and Security. The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. If the Legislature approves a project prior to Finance approval of the FSR, some aspects of the projects may still change – as Finance may require changes to the FSR plan. The Subcommittee may want to ask the Administration why they are requesting Legislative approval for this project prior to the approval of the FSR.

**Staff Recommendation:** Hold this issue open, pending Finance approval of the FSR. Staff understands the Administration may be able to finish Control Agency review prior to the May Revision hearing.

**Vote:**

- 5. Queuing System Expansion - IT Project (FL #5).** The Administration requests \$2.087 million (special funds) to install queuing management systems for 42 additional DMV field offices. Ongoing funding is also requested at the level of \$267,000. The DMV indicates the benefit of these queuing systems is improved customer service and improved performance measures – as the systems allow DMV to determine if offices are meeting the statutory mandate to provide service to customers within an average wait time of 30 minutes.

**Detail:** The DMV currently has electronic queuing systems in 92 of the largest field offices and this request would add 42 additional offices. The Department indicates this would leave 34 offices without such systems; however, most of these offices are located in remote areas and do not have a large customer base or long wait times. These systems will allow field office managers to direct the assignment of customers to different windows to reduce average wait times; improve waiting conditions for customers; and more efficiently allocate staff within individual field offices. Each system will also act as a data collection device to allow regional office managers to monitor and manage the field offices on a real-time basis.

**Staff Comment:** The FSR associated with this project is still under review by the Department of Finance, Office of Technology Review, Oversight, and Security. The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. The absence of an approved FSR is somewhat mitigated in this case, because this is a proven technology that has been evaluated by a past FSR and a Post Implementation Evaluation Report.

**Staff Recommendation:** Approve this request. The FSR has not been approved; however, this is a known IT system that has been successfully implemented at other DMV offices.

**Vote:**

**8530 Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun**

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays. The Governor's Budget proposed expenditures of \$1.2 million (Board of Pilot Commissioners' Special Fund) and 2.0 positions – an increase of \$15,000.

**Issues for Discussion:**

- 1. Augmentation for Pilot Trainees (FL 1).** The Administration requests a permanent augmentation of \$254,000 (special fund) to increase the average number of trainees from three to nine. The Commission indicates that additional pilot trainees are necessary to meet the need for licensed pilots starting in 2005-06.

**Detail:** By regulation, pilot trainees are required to be in the training program for a minimum of one year and a maximum of three years. Pilot trainees receive a stipend of \$4,200 per month. The Commission surveyed current Pilots and found ten intend to retire prior to 2008, and another five intend to retire within a year of that.

**Fund Condition:** The Governor's Budget shows a Board of Pilot Commissioners' Special Fund reserve of \$12,000 at the end of 2005-06, with 2005-06 expenditures exceeding revenues by approximately \$900,000. The Department of Finance indicates the Commission will have to increase fees to fund this Finance Letter in 2005-06 and ongoing base expenditure in 2006-07. The Commission is currently considering fee increases, which Finance indicates will produce a reserve of \$836,000 in 2005-06 and \$913,000 in 2006-07. The proposed fee increase is within current statutory maximums.

**Staff Recommendation:** Approve the request.

**Vote:**

- 2. Facilities Operations Augmentation (FL #2).** The Administration requests a permanent augmentation of \$37,000 (special fund) to support a rent increase for the Commission's office facility. Harbors and Navigation Code Section 1153 requires the office to be located in San Francisco, and the facility identified by the Department of General Services has an annual rent of \$59,000, versus the budgeted amount of \$22,000.

**Staff Recommendation:** Approve the Request.

**Vote:**

## **8820 Commission on the Status of Women**

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating and informing its constituencies.

The Governor's Budget proposes expenditures of \$422,000 (\$420,000 General Fund and \$2,000 reimbursements) and 3.9 positions – a decrease of \$3,000. These figures include a \$7,000 unallocated General Fund reduction.

### **Issue**

**1. Commission Funding.** In January 2005, the Legislature received a deficiency request from the Administration of \$8,768. The Commission had originally requested \$36,823, and the Department of Finance had reduced the level to \$8,768. While these costs appear to be ongoing in nature, the Governor's Budget does not include a related augmentation. Additionally, the Budget includes an unallocated General Fund reduction of \$7,000 for the Commission.

**April 6, 2005 Hearing:** This issue was heard and left open so the Commission could respond in more detail to concerns raised by the Subcommittee.

**Staff Comment:** The Commission indicates it will not be able to absorb these reductions without a staff reduction or a move to an office away from the capitol – either of which, the Commission indicates, will decrease their effectiveness.

**Staff Recommendation:** To keep the Commission at the adjusted 2004-05 budget base, the Subcommittee may want to consider rejecting the \$7,000 unallocated General Fund reduction and additionally augmenting the budget by \$9,000 General Fund.

**Vote:**

**Attachment I****Amendments to Government Code that relate to proposed changes the financing of economic development areas. (See Issue #3 on page 17 of this agenda).**

## 1) Amend Section 7076(c) and (d) of the Government Code to read:

(c) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each enterprise zone *and manufacturing enhancement area* a fee of not more than ten dollars (\$10) for each application ~~it accepts~~ for issuance of a certificate pursuant to ~~subdivision (j) of Section 17053.47, subdivision (c) of Section 17053.74, of the Revenue and Taxation Code and subdivision (c) of Section 23622.7, or subdivision (i) of Section 23622.8~~ of the Revenue and Taxation Code. The enterprise zone *or manufacturing enhancement area* administrator ~~may~~ shall collect this fee at the time ~~it accepts~~ an application is submitted for issuance of a certificate. ~~This subdivision shall become inoperative on July 1, 2006, and shall have no force or effect on or after that date.~~

~~(d) Any fee assessed and collected pursuant to subdivision (c) shall be refundable if the certificate issued by the local government pursuant to subdivision (c) of Section 17053.74 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of the Revenue and Taxation Code is not accepted by the Franchise Tax Board. This subdivision shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.~~

## 2) Amend Government Code Section 7086(d) as follows:

(d) The department shall adopt regulations governing the imposition and collection of fees pursuant to ~~subdivisions (c) and (d)~~ *subdivision (c)* of Section 7076, and the issuance of certificates ~~by local governments~~ pursuant to ~~subdivision (j) of Section 17053.47, subdivision (c) of Section 17053.74, of the Revenue and Taxation Code and subdivision (c) of Section 23622.7, or subdivision (i) of Section 23622.8~~ of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

## 3) Amend Government Code Section 7097 by adding subdivision (g) as follows:

*(g)(1) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each targeted tax area a fee of not more than ten dollars (\$10) for each application for issuance of a certificate pursuant to*

subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The targeted tax area administrator shall collect this fee at the time an application is submitted for issuance of a certificate. This paragraph shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.

(2) The department shall adopt regulations governing the imposition and collection of fees pursuant to this subdivision and the issuance of certificates ~~by local governments~~ pursuant to subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

4) Add Section 7114.2 to the Government Code as follows:

7114.2(a) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each LAMBRA a fee of not more than ten dollars (\$10) for each application for issuance of a certificate pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The LAMBRA administrator shall collect this fee at the time an application is submitted for issuance of a certificate. This subdivision shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.

(b) The department shall adopt regulations governing the imposition and collection of fees pursuant to this section and the issuance of certificates ~~by local governments~~ pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

5) Amend Rev and Tax Code 17053.34(d) to read:

(d) The qualified taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office

or social services agency, or the local government administering the targeted tax area ~~as appropriate~~, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

6) Amend Rev and Tax Code 17053.46(c) to read:

(c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office, or social services agency, or the local government administering the LAMBRA ~~as appropriate~~, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

7) Amend Rev and Tax Code 17053.47 by adding subdivision (j) to read:

(j) The qualified taxpayer shall do both of the following:

(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

## 8) Amend Section 23622.8 of the Rev &amp; Tax Code by adding subdivision (i) as follows:

*(i) The qualified taxpayer shall do both of the following:*

*(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.*

*(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.*

## 9) Amend Rev and Tax Code Section 23634(d) to read:

*(d) The qualified taxpayer shall do both of the following:*

*(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, ~~as appropriate~~ or the local government administering the targeted tax area, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.~~*

*(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.*

## 10) Amend Rev and Tax Code Section 23646(c) to read:

*c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:*

*(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the administrative entity of the local county or city for the federal Job Training Partnership Act, or its successor, the local county GAIN office, or social services agency, ~~or the local government administering the LAMBRA as appropriate~~, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this~~*

~~purpose.~~—*The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.*

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.